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CHARLES ELMORE CROPLEY
CLERK

Supreme Court of the United States

OCTOBER TERM, 1944.

No. 373

ALPINE MacGREGOR,

Petitioner,

vs.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY,

Respondent.

RESPONDENT'S BRIEF OPPOSING THE PETITION FOR CERTIORARI.

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No. .....

ALPINE MACGREGOR,

Petitioner,

vs.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, a Corporation,

Respondent.

RESPONDENT'S BRIEF OPPOSING THE PETITION FOR CERTIORARI.*

The petition should be denied for any one of the following reasons:

1. The jurisdiction of this Court to review a decision of a state court does not include this case because (a) no constitutional question, or right arising under federal law is affected by the judgment below, and (b) no final decree has been entered below.

2. The Supreme Court of Pennsylvania recognized and properly applied the principle of law laid down by this Court in *Sola v. Jefferson.*

The Petition is in effect an attempt to appeal from a decision of the Supreme Court of Pennsylvania applying

* The opinion of the Court below is reported at 38 A. 2d 244.
All marks of emphasis in quotations are ours unless otherwise noted.

the law of that State to the interpretation and enforcement of a contract between citizens of that state, the judgment rendered merely requiring petitioner to account for and pay money as provided by the contract in suit. That in no way involves a federal law.

Counterstatement of the Case.

Petitioner, defendant below, while an employee of respondent, Westinghouse, became familiar with the composition and uses of a copper-phosphorus solder being made, used, and sold by Westinghouse, covered by patent No. 1,651,709, owned by respondent. Upon leaving Westinghouse, MacGregor commenced the manufacture and sale of a solder of substantially the same composition and characteristics as the patented solder. Westinghouse promptly sued MacGregor in the United States District Court at Pittsburgh for infringement of its patent. Instead of defending the suit, MacGregor, then represented by the same counsel that represents him here, took the license which is the subject matter of this litigation. That license provides that MacGregor shall pay a royalty and shall sell the licensed solder at prices no less than those charged for the patented solder by Westinghouse. R. p. 195 a. MacGregor operated and paid royalties under the license agreement for about four years. Finding 7, R. p. 242 a.

Some years after execution of the license contract, MacGregor put on the market another copper-phosphorus solder of slightly varied constituents. Westinghouse demanded payment of royalties on this new solder. MacGregor refused, and at the same time decided to stop payment of royalties on the solder that had been the basis of the infringement suit. Findings 8 and 9, R. p. 242 a.

Westinghouse brought the present suit on the license contract in the Court of Common Pleas of Allegheny County, Pennsylvania, in which County both parties are residents. The prayer of the bill is that defendant be required to account for and pay the royalty due under the contract. R. pp. 8-9 a. MacGregor by way of defense pleads that the two solders above referred to do not come under the patent, that the licensed patent is invalid, and that the contract is unenforceable because it *contains* a clause requiring MacGregor to maintain licensor's prices on the patented solder. He also counterclaims to recover royalties paid "by mistake", and for unspecified damages under the Sherman Act. R. p. 20 a.

The case was tried at law, without a jury, the facts being found specially by request of the parties. The Trial Court received evidence to limit the construction of the licensed patent, but refused to receive evidence offered to attack its validity, on the ground that a licensee is estopped to contest validity of the licensed patent. It found as facts and conclusions of law that both defendant's solders above referred to come within the scope of the patent, and therefore under the license agreement to pay royalties. R. p. 267 a. It found the counterclaim without merit because there had been no mistake. It ordered an accounting to determine the amount of licensed product that had been made and sold by defendant and upon which royalty had not been paid.

The Supreme Court of Pennsylvania affirmed the Trial Court in all respects, remanding the case for an accounting.

Jurisdiction is Lacking.

Petitioner's brief, at page 11, invokes jurisdiction under the provisions of 28 U. S. C. 344 (b), Judicial Code 237, and

28 U. S. C. 347, Judicial Code 240. We submit that Section 347 is not pertinent, being applicable only to *certiorari to federal courts.*

Jurisdiction of this Court to review the decision below must be found in Section 344. As we understand that statute, this Court has jurisdiction to review only a *final* judgment of a state court (paragraph a) and such review extends only to cases where the decision of the highest state court (1) involves the validity of a treaty or statute of the United States, or (2) involves the validity of a state statute asserted to be contrary to the constitution, treaties, or laws of the United States, or where (3) a right is specially set up and claimed under the Constitution or federal laws.

The present case does not fall within any of the statutory provisions.

Petitioner's brief at page 11 cites five cases as sustaining the jurisdiction of this Court in the present case. *Those cases have no bearing whatever upon the Court's jurisdiction in the present case because all of them relate to certiorari where there was direct conflict of decision on matters of Federal law between federal courts.*

The present case, involving a *state* court decision, falls under 28 U. S. C. 344 (b), and petitioner cites no cases pertinent to that source of jurisdiction.

The burden to show jurisdiction is on petitioner.

Gorman v. Washington, 316 U. S. 98, 101.

The jurisdiction of this Court to review decisions of the highest court of a state is statutory and exists only when the case falls clearly within the statutory provisions.

Roller v. Murray, 234 U. S. 738;

Waters Pierce v. Texas, 212 U. S. 86;
Citizens Bank v. Opperman, 249 U. S. 448.

No Federal Question is Involved in the Decision Below.

The suit below seeks to enforce payments provided by a contract between two citizens of Pennsylvania. No other issue was raised by plaintiff. See the Statement of Claim at R. p. 9 a.

Petitioner, purely as a matter of defense, to avoid payment of royalties, attempted to attack validity of the patent, and enforceability of the contract, because a price-fixing clause, not in suit, was included in the license contract. That price-fixing clause had not been observed, and was not either directly or indirectly involved in the suit brought by plaintiff. See opinion of the Supreme Court of Pennsylvania, page 16b.

The Court below held that under Pennsylvania law a licensee is estopped to attack validity of a patent under which he holds a license. It also held that since the price-fixing clause of the license was not asserted or relied upon by plaintiff, the legality of that clause under federal law is a moot question which the state court had no reason to consider. See opinion below, page 16b.

The Trial Court (which was affirmed in all respects on appeal) held as a conclusion of law (R. p. 268a and 314a) that even if the price-fixing clauses were *per se* illegal (as violating federal law), they were separable, and could be excluded under "The Blue Pencil Rule", as had been done by the Supreme Court of Pennsylvania in construing other contracts involving restraint of trade (illegal under federal law) between citizens of Pennsylvania, citing *Smiths Appeal*, 113 Pa. 579, and *Monongahela v. Jutte*, 210 Pa. 288.

This Court has repeatedly held that it is essential to its jurisdiction in reviewing a decision of a state court that it must affirmatively appear from the record, not only that a federal question was presented for decision, but that the decision of the federal question was necessary to the determination of the cause, that the federal question was actually decided, or that the judgment as rendered could not have been given without deciding it.

Southwestern Telephone Company v. Oklahoma, 303 U. S. 206, 212;
Lynch v. People of N. Y., 293 U. S. 52.

Decisions of state courts based on local laws, not involving federal questions, are not reviewable by this Court.

Campbell v. Olney, 262 U. S. 352, 43 S. Ct. 559.

This Court has no jurisdiction unless a real and not a frivolous federal question is involved. Mere assertion of some right under federal law is not sufficient.

U. S. Fidelity v. Oklahoma, 250 U. S. 111, 39 S. Ct. 399.

Save in exceptional circumstances, this Court accepts as controlling a decision of the state court on questions of local law, both statutory and common.

American Express v. Kentucky, 273 U. S. 269, 47 S. Ct. 353.

A suit on a contract of which a patent is the subject matter, either to enforce such contract or to annul it, where the decision of a state court is based upon the contract, does not present a federal question.

Dale v. Hyatt, 125 U. S. 46, 8 S. Ct. 756;
Felix v. Scharnweber, 125 U. S. 54, 8 S. Ct. 759;
Wood v. Skinner, 139 U. S. 293, 11 S. Ct. 528.

The Judgment below was Not Final.

The judgment of the Trial Court in this case was *to order an accounting.* R. p. 33 a. The decree of the Supreme Court of Pennsylvania affirmed the judgment below. R. p. 21b. A final decree will not be entered until the accounting has been completed. Under such circumstances this case, even if it were otherwise within the scope of the statute, is not ripe for review by this Court.

Arnold v. United States, 263 U. S. 427, 44 S. Ct. 144;

Louisiana Navigation Company v. Louisiana, 226 U. S. 99, 33 S. Ct. 78.

A judgment fixing the rights and liabilities of the parties but remanding the case for an accounting upon which a further decree is to be entered, is not final.

California v. Statler, 171 U. S. 447, 19 S. Ct. 6.

The Sola case does Not Create for Defendant a Right to Attack Validity of the Licensed Patent.

The exception to the rule that a licensee is estopped to attack validity of the licensed patent arises under the decision of this Court in *Sola Electric Company v. Jefferson Electric Co.,* 317 U. S. 173, 63 S. Ct. 172.

Petitioner's argument is that since the license contract contains price-fixing clauses (Sec. 5 and 6, R. p. 197-8a), that fact of itself, *regardless of enforcement of the clauses,* gives licensee a *right* to assert invalidity of the patent, thereupon to assert unenforceability of the contract, thereby to refuse payment of agreed royalties.

Petitioner seems to think the *Sola* decision creates some new personal *right* for a licensee-defendant, analogous to

the right to trial by jury, etc. We submit that it does nothing of the kind. It merely declares the law that estoppels under local (state) law can not screen and protect violation of a federal law. Of course it does not and could not remove any estoppel arising under local law except such as would permit violation or prevent enforcement of a federal law. If violation or enforcement of a federal law is not involved in a state court case, local rules of estoppel are not affected by the Sola case, as we understand.

It appears from the opinions in the *Sola* cases that Sola agreed to maintain the prices established by Jefferson for its sale of the patented products as well as to pay royalty on the licensed products. After having operated under the license for some time, Sola refused to pay royalty on certain of the licensed products and refused to maintain licensor's established prices on those products, because, it asserted, the only claims of the patent covering those certain products had been held invalid by the Sixth Circuit Court of Appeals. Jefferson then sued Sola to recover the royalties withheld, and *also for an injunction restraining Sola from selling licensed products at prices below those established by the licensor.* The Seventh Circuit Court of Appeals (125 F. (2d) 322) held that Sola was estopped to deny validity of any claims of the licensed patent so long as it retained a license under the patent, ordered it to pay the accrued royalties, *and enjoined it from violation of the price-fixing clause of the contract.*

Petitioner urges the *Sola* decision as broadly giving a a licensee sued for royalties the *right* to attack validity of the licensed patent, if there is a price-fixing clause in the

license agreement, regardless of whether enforcement of the price-fixing clause is involved in the litigation. Our position is that the Sola case goes no further than to give to a licensee the right *to defend against enforcement of a price-fixing clause* by challenging validity of the licensed patent because enforcement of the price-fixing clause would be contrary to federal law if the patent were invalid. We think the decision must be so interpreted and restricted because that was the actual case before this Court.

That the price-fixing clause in the Sola case was directly in issue appears clearly from this Court's statement of the case. See the first paragraph of the opinion:

> "*The question for our decision is whether a patent licensee, by virtue of his license agreement, is estopped to challenge a price-fixing clause in the agreement by showing that the patent is invalid,* and that the price restriction is accordingly unlawful because not protected by the patent monopoly."

Note the last sentence of the second paragraph of this Court's opinion:

> "Respondent sought recovery of unpaid royalties *and also an injunction restraining further sales except in conformity to the terms of the license agreement.*"

In the present case the legality of the price-fixing clauses under federal law is moot in the state court since no enforcement thereof is sought. In addition, the patent is presumptively valid, and the price-fixing clauses are presumptively legal in the state court. Why therefore should it consider a federal question raised collaterally as a defense under such circumstances?

In *U. S. v. Alaska,* 253 U. S. 113, this Court said at page 116:

> "* * * it is settled principle in this court that it will determine only actual matters in controversy essential to the decision of the particular case before it. * * * However convenient it might be to have decided the question of the power of the Commission to require the carriers to comply with an order prescribing bills of lading, this court 'is not empowered to decide moot questions or abstract propositions, or to declare, for the government of future cases, principles or rules of law which cannot affect the result as to the thing in issue in the case before it.' * * *" Citing *California v. San Pablo & Tulare R. Co.*, 149 U. S. 308, 314.

Chicago vs. Katzinger is Immaterial.

Petitioner cites *Chicago v. Katzinger*, 139 F. (2d) 291 to support his construction of the Sola case. Our position as to the *Chicago* case is that it is bad law. So far as we know there is no other case to the same effect. And even if there be direct conflict of interpretation of the *Sola* decision between the Seventh Circuit Court of Appeals and the Supreme Court of Pennsylvania, that does not give this Court jurisdiction in this case.

The Sola case has been concurrently discussed and applied by the Second Circuit Court of Appeals in *Nachman v. Kay*, 139 F. (2d) 781. In that case defendant in settlement of litigation agreed by written contract to acknowledge the validity of a patent, to discontinue the manufacture and sale of any devices that would infringe the patent, not thereafter to make any article coming under the patent, and not to contest validity of the patent if sued. Defendant later made articles that came under the patent, and was sued. The lower court enforced the contract in all its terms. The Second Circuit Court of Appeals re-

versed the lower court, holding that such a contract could be valid under federal law only if the patent were valid, and that validity would therefore have to be considered.

Referring to the *Sola* case the Court said—

> "But the rationale of the opinion is that there can be no valid estoppel to deny the validity of a patent *if the estoppel will result in a contravention of Federal Anti-Trust Laws.*"

That construction of the Sola case by the Second Circuit Court of Appeals, as we understand it, is the one accepted and applied by the Supreme Court of Pennsylvania. If respondent in this case were seeking to enjoin MacGregor from selling the licensed solder at prices less than those charged by Westinghouse for the patented solder, then petitioner's position as to the bearing of the Sola case and his right to attack validity would be correct. Since granting the full relief asked by respondent in this case does not require anything directly or indirectly forbidden by the Federal Anti-Trust Laws, the Sola case does not apply.

Petitioner's "Counterclaim" is Unfounded.

Petitioner in his counterclaim (R. p. 20a) asks damages in a state court under the Sherman Act and other unidentified "Federal Anti-Trust" Acts. But his pleading states no amount or basis for determining the alleged damages, and pleads no facts upon which damages could be based. The Trial Court had no basis in the pleadings for considering this part of the counterclaim, even if it had had jurisdiction to do so. On this point the Supreme Court of Pennsylvania referred to petitioner's claim for damages as follows:

"In addition he [MacGregor] now asks for damages in an *unstated amount upon an unstated cause of action* under the Sherman Anti-Trust Act (U. S. C., Title 15, Secs. 1 and 2)" * * * R. p. 13b.

The Licensed Patent is Prima Facie Valid, and the Price-Fixing Clauses thereof are Prima Facie Legal.

Petitioner's brief argues at pages 16-8 that the licensed patent is *prima facie* invalid. So far as we know, it has been established law for a long time that any patent duly issued by the United States Patent Office is presumed to be valid until the contrary is made to appear by competent evidence. We know of no decision to the contrary, and petitioner cites none.

Kokomo v. Kitselman, 189 U. S. 8, 23;
American v. DeGrasse, 157 F. R. 660, 663.

No case holds it illegal *per se* to include in a patent license a requirement that licensee shall not sell the licensed product at prices less than those charged by the licensor for its patented product. As we understand it, such clauses are *prima facie* valid under the decisions of this Court.

U. S. v. General Electric, 272 U. S. 476.

The Price-Fixing clauses in this License were entered into in Good Faith.

There can be no question about the good faith of the price-fixing clause in the present license agreement. There is no basis in the pleadings or findings for any charge of *conspiracy* to restrain trade. There is no foundation in the pleadings or in the facts for the charge of *"legal duress",*— made for the first time in this petition. The only parties to

the license agreement are the parties to this suit, and petitioner still clings to his rights under the license, as shown by our next paragraph.

Petitioner during the Trial Recognized the License as Legal and Effective.

Petitioner, MacGregor, testifying *pro se*, under cross-examination, in effect repudiated any attack on the legality of the license agreement and validity of the patent by specifically recognizing his then existing and future right to make and obligation to pay royalty on any solder "properly covered" by the Jones patent. See the Trial Court's finding 12 at 243 a. For the convenience of the Court we quote his testimony on this point from R. p. 144-5 a:

> "XQ. You and your counsel decided to take the license, and you did take the license? A. Yes, sir.
>
> "XQ. You still have that license in effect? A. That's right.
>
> "XQ. And you have made the phos-copper solder without any other ingredient, and paid a royalty on that under that license? A. That's right.
>
> "XQ. *And if you made any tomorrow, you would pay a royalty under that license?* A. *Yes, sir.*
>
> "XQ. *You regard the license as still in force and effect?* A. *I regard the license as still in force and effect under advice from Mr. Jaspert, as applying to the phos-copper alloy alone.*
>
> "XQ. *In other words, you regard the license as still in force and effect as covering anything that properly comes under the Jones Patent, do you not?* A. *That property comes under the Jones Patent, yes, sir.*"

That testimony, we submit, is an unqualified admission by petitioner of the legality of the license contract when applied to any solder that "properly comes under" the Jones patent. In view of that position stated by the petitioner-defendant in open Court, we submit that the only

questions properly before the Trial Court thereafter were whether defendant's solders upon which royalty was claimed come under the patent construed in the light of the prior art. That question was decided on its merits by the Trial Court. That position of defendant, as we see it, eliminated the possibility of further attack on the legality and enforceability of the license contract. Obviously, petitioner accepted the license as legal in spite of the inclusion of a price-fixing clause,—except for the purpose of defense to payment of royalties on certain solders.

Petitioner's "Statement of Questions Involved" is Incorrect in its indication of the Decision Below.

Petitioner's "Statement of Questions Involved" in its Appendix indicates (page 9 "1.") that the Supreme Court of Pennsylvania held it proper to give to a patent a scope inconsistent with its disclosure and to cover subject matter disclaimed by the patentee. Respondent argued no such thing. The Court below held no such thing. It received all the evidence petitioner offered to show the proper scope of the patent, including the file history and all the prior art offered by petitioner. Then it held petitioner's products within the scope of the patent. *That was a decision on the merits,* not on any such law point as broadly stated by petitioner.

As to disclaimer by the patentee, the file history in which the alleged disclaimer arose was received in evidence and considered by the Court. Petitioner's contention of disclaimer was rejected. *That decision was on the merits,* and presents no reviewable question for this Court.

Petitioner also says (page 9 "2".) that the Supreme Court of Pennsylvania held that a defendant is not permit-

ted to show that the patent under which he is licensed can not be construed to cover the article for which plaintiff seeks an accounting. Respondent made no such argument below, and the Court below made no such ruling or decision. On the contrary all of the prior art patents and publications offered to limit the scope of the patent were received, without objection, and were discussed by the Trial Court for that purpose. See R. p. 244-6 a. The decision was against defendant-petitioner *on the merits*, not on the broad law point now asserted.

Petitioner's "Reasons for Allowance of the Writ" are Not well Founded.

Answering this statement in order, respondent's position is as follows.

"I." There is no conflict between the decision of the Supreme Court of Pennsylvania and this Court's decision in the *Sola* case. It clearly appears from the statement in the decision below at R. p. 17b, that the Supreme Court of Pennsylvania accepts the law as laid down in the *Sola* case, but finds it not applicable to the facts and pleadings of the instant case.

"II." There is no such conflict of decision between the Pennsylvania Supreme Court in this case and the U. S. Seventh Circuit Court of Appeals' decision in the case of *Chicago v. Katzinger,* 139 F. (2d) 291, as referred to in the statutes giving this Court review jurisdiction. The Pennsylvania Court interprets the *Sola* case as not calling on it, under Pennsylvania law of contract construction, to decide whether enforcing a clause of the contract that it is not asked to enforce, would result in violation of a federal law. In so doing it followed established precedents of its

own prior decisions, as well as federal court decisions. The Seventh Circuit Court of Appeals obviously approached the issue from a different angle.

"III." The Supreme Court of Pennsylvania has not decided any "federal question", in the sense of the jurisdictional statute, in the instant case. It has merely applied an existing contract to the facts of a case brought in Pennsylvania Courts between Pennsylvania citizens. That defendant sought to avoid his contractual obligations by asserting a defense and counterclaim based (as mere conclusions of the pleader) on federal law does not bring the case within the jurisdictional statute for review by this Court, as we understand it. The statute requires that a federal law be *necessarily* involved, and *necessarily decided* to support the judgment rendered.

The Waiver Telegram is Immaterial.

At page 14 of his brief, petitioner in a footnote quotes a telegram allegedly received from respondent, arguing from it that respondent must agree with petitioner's views on the illegality of the price-fixing clauses of the license contract—because it has waived enforcement of them.

This is not proper argument or valid conclusion for several reasons. In the first place, the alleged telegram is not in the record, and was not before the Courts below. Obviously petitioner has no right to inject it into the case at this stage, or to base any argument on it.

In the second place, even had the alleged waiver been sent before the trial, and received in evidence, it would have made no difference to the issues being tried. Respondent had in legal effect waived the price fixing clause when it brought suit on the contract without asking that defend-

ant be required to respect the price-clause, or pay damages for its breach. Before suit was filed MacGregor had violated the price-fixing clause, and had refused to be bound by it for some products, at least. See opinion below at R. p. 16b and MacGregor's testimony at R. p. 148 a.

Petitioner Misunderstands the "Blue Pencil Rule".

At page 15, petitioner's brief argues that the price-fixing clauses of the contract in suit are not divisible under the "Blue Pencil Rule" which has been applied by the Supreme Court of Pennsylvania in this and other cases. We think it unnecessary to argue this point at length in this brief. The Supreme Court of Pennsylvania found the legality of the price-fixing clause a moot question, because it was not in suit, and did not therefore need to apply the Blue Pencil Rule. However, it is pertinent to point out that the cases cited at pages 15 *et seq.* by petitioner are not in point in the case at bar. All of them refer to situations where an invalid, or partly invalid, consideration flowing from the first party was relied upon to support a number of different obligations by the second party. In the present case quite obviously the consideration flowing from Westinghouse was the grant of a license under a patent. There can be no possible attack upon the legality of that consideration. The several obligations of petitioner, including the obligation to pay royalty, to account, to maintain licensor's prices, were all based upon that single valid consideration of the license grant. No case having similar circumstances is cited by petitioner.

The Blue Pencil Rule as recognized in Pennsylvania has been applied by the Federal Courts, for example, in the following cases:

Oregon v. Winsor, 87 Wall. 64;
Cincinnati v. Bay, 200 U. S. 179;
Western Union v. Pennsylvania, 129 F. 849;
Paramount v. National, 49 F. (2d) 64.

All of those were cases where more than one obligation was based on a valid consideration but one obligation was alleged to be illegal as in restraint of trade. Divisibility was found as to the obligations. A definition and application of the Blue Pencil Rule as we understand it is given in *Kessler v. Jefferson,* 125 F. (2d) 108, by the Sixth Circuit Court of Appeals, at page 111.

Petitioner's "Conclusion" is Unfounded.

At page 24 of his brief, petitioner says the instant suit involves "legal duress" and "a fraud upon petitioner and the public". Such extravagant statements are meaningless when one considers that the only issue here involved is payment of royalties as provided by a contract between the parties. There is no evidence whatever of any "premeditated scheme" to destroy petitioner, and no pleading to that effect. Petitioner was sued in the United States District Court under a straight patent infringement bill. *He was then in court with every opportunity to attack validity and show non-infringement.* He preferred to take a license. After operating as a licensee some four years, he decided to discontinue the payments he had agreed to make. Respondent sued in the state court on the contract. It could not then sue for infringement because petitioner has a license to make any product covered by the patent. It had to sue in the state court, because the parties are citizens and residents of the same county and state.

Conclusion.

Respondent submits that there is no jurisdiction for review of this state court case, because no federal question is involved and because no final judgment has been entered below. Aside from that, enough appears from the petition and the opinion below to show that petitioner has no case on the merits. The petition should be denied from any point of view.

Respectfully submitted,

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September 13, 1944.